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Patricia Banks Morrison  
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February 1, 2006

**Via Hand Delivery**

The Honorable Charles Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Drive  
Columbia, SC 29210

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SC PUBLIC SERVICE  
COMMISSION

Re: Docket No. 2005-2-E  
Study of South Carolina Electric & Gas Company Fuel Expenses

Dear Mr. Terreni:

South Carolina Electric & Gas Company ("SCE&G" or the "Company") is in receipt of the "Study of South Carolina Electric & Gas Company Fuel Expenses" prepared by the Office of Regulatory Staff. After a thorough review of the Study, SCE&G offers the following comments thereon to the Commission. The Company feels these comments are important and should be reviewed in tandem with the Study.

The majority of the Company's comments are focused on the recommendations found at the conclusion of the Study and will be addressed in order of those recommendations.

- I. The Company considers the purchase of coal from off-shore markets when it is competitive, is required for reliability, and provides diversity of supply and transportation. Foreign coal has a much lower sulfur content and is currently competitive with domestic coal on an as-delivered basis.
- II. The Company regularly evaluates alternative fuels and will continue to do so. Each year SCE&G produces an Integrated Resource Plan (IRP) which provides a summary of the analysis performed regarding the practicality of alternative fuels and the feasibility of relying on those alternative fuels.
- III. The Company regularly evaluates new technologies, including on-site coal/petroleum coke gasification, and will continue to do so. Each year SCE&G produces an IRP which provides a summary of the analysis performed regarding the new technologies, their benefits and the feasibility of integrating those technologies into the Company's operations.
- IV. The Company blends coal with different characteristics for various plants on the system and will continue to do so.

- V. The Company has sought the advice of counsel in evaluating the potential legal remedies against CSX for failure to perform and continues to evaluate its options on a continuing basis.
- VI. The Company has pursued alternate means of transportation and will continue to do so where practicable.
- VII. The Company does not currently perform any financial hedging for coal supply, but does rely on market timing, inventory control and a mixture of spot and contract purchasing to mitigate fuel market volatility and will continue to do so in the future.
- VIII. The Company has been rebuilding its inventories and working toward its target for 2006 and will continue to do so.
- IX. The Company regularly evaluates and categorizes the type of generation necessary to satisfy its future capacity needs and will continue to do so. Each year SCE&G produces an IRP which contains the Company's latest forecast of peak loads, resource needs, and, if determined, how those resource needs will be met. Resource planning at SCE&G is an ongoing process and will continue to be.
- X. SCE&G currently provides ORS the following information in various forms and will continue to do so: annual updated fuel forecast, monthly over/under cumulative recovery report, and notice of significant cumulative recovery trends. The Company will begin providing ORS the following information: notice of significant fuel cost trends and the monthly FERC Form 423. The Company objects to the recommendation that ORS be provided information regarding any industry solicitation for coal. The Company sees no benefit for ORS from this information and believes it could actually put the Company at a market disadvantage by doing so.

SCE&G has a final comment which refers to information that has been redacted from the Study. Because of the commercial sensitivity and proprietary nature of the comment and the information found in the Study as well as the highly competitive nature of the industry in which SCE&G purchases coal, the Company respectfully requests that the Comment be received in its original form under seal for Commission review.

I therefore enclose the Comment as an addendum as follows:

- (1) In accordance with Order No. 2005-226 of Docket No. 2005-83-A, SCE&G is providing a true and correct copy of the Confidential Comment in a sealed envelope marked "CONFIDENTIAL." The Comment is denoted as "Addendum to Letter to Charles Terreni – February 1, 2006" and is contained in one page. The Comment is also marked "CONFIDENTIAL." We would request that the Commission treat the Comment and all copies thereof as confidential and proprietary, and we are providing the Comment with the

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expectation that it is exempt from disclosure to any third parties, including but not limited to exemption from disclosure under the Freedom of Information Act, S.C. Code Ann. §§ 30-4-10 *et seq.*, or any other provision of law. *See, e.g.*, S.C. Code Ann. Regs. 103-303, -304(Y). We would further request that in the event that anyone should seek disclosure of the confidential Comment, the Commission would give SCE&G notice of such request and provide it with an opportunity to obtain an order from this Commission or a court of competent jurisdiction protecting the Comment from disclosure. We trust that the Commission would support our efforts to protect the Comment from disclosure.

- (2) The Comment itself refers to confidential information, so it is not realistic to provide a redacted copy of the Comment. Therefore, none has been included with this letter.
- (3) SCE&G will make the confidential Comment available for ORS's inspection subject to the provisions of S.C. Code Ann. § 58-4-55(C). Pursuant to this section, the Comments would be exempt from disclosure under the Freedom of Information Act. Further, ORS would be precluded from disclosing the information obtained from its review to any other person or entity unless a confidentiality agreement has been executed between SCE&G and the third-party.

While we would prefer that the Commission not make any copies of the confidential Comment, we would further request that should any copies of the confidential Comment be made, the Commission provide certification either that all such copies have been destroyed or that all copies have been returned to SCE&G.

Thank you for your consideration in this matter.

With kind regards,



Patricia Banks Morrison

CC: Shannon Bowyer Hudson, Esq.